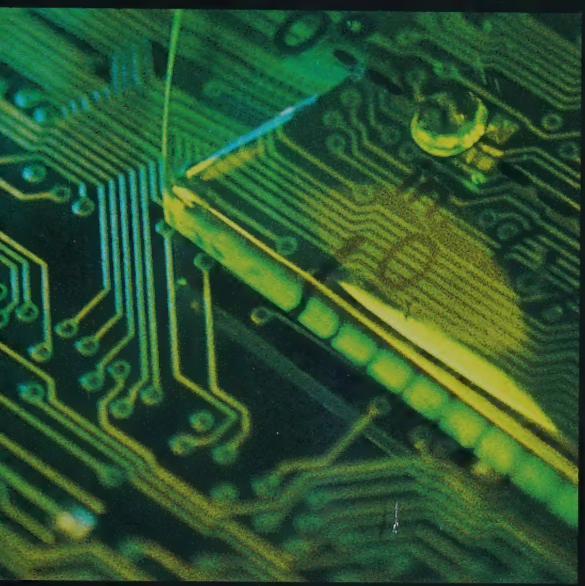
AR65

Ryan



opportunity drilling services well site data management drilling technology internet based data processing Canadian operation dynamic pressure device U.S. operation electromagnetic [EM] technology real time data collection transmission MWD/LWD technology operation in Venezuela ryan

RYAN ENERGY TECHNOLOGIES INC. **2001** ANNUAL REPORT

2001 highlights

increased revenue by 52 percent to $95.7 million ■ integrated the January 2001 directional drilling acquisition ■ expanded capacity in Venezuela resulting in improved earnings for the year ■ expanded the Tru Vu® WDM business

The leader in
UNDERGROUND INTELLIGENCE™

"Delivering intelligent *Directional Drilling Technology & Solutions* using extensive experience, sound engineering, proprietary technology, industry leading reliability and focused customer service."

1	Highlights
2	President's Message
4	Technology Innovation
6	Operational Overview
10	MD&A
21	Management's Responsibility
21	Auditors' Report
22	Financial Statements
25	Notes to the Financials
35	Quarterly Results
36	Financial Review
IBC	Corporate Information

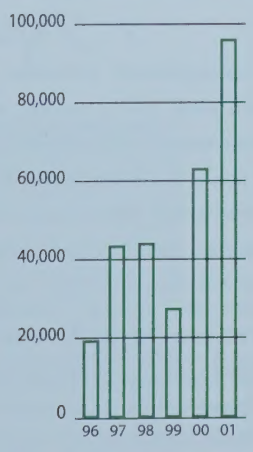
NOTICE OF MEETING The Annual Meeting of the shareholders of the Company will take place on May 8, 2002 at 3:00 p.m. at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta. Those shareholders not able to attend are requested to complete, sign and return the form of proxy, no later than 24 hours prior to the meeting.

Financial Highlights

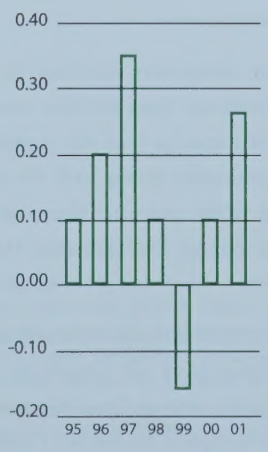
Stated in thousands of Canadian dollars, except per share amounts

For the year ended December 31,	**2001**	2000	1999
Revenue	**$ 95,715**	$ 62,866	$ 27,340
Direct costs	**65,497**	42,830	21,489
Gross profit	**30,218**	20,036	5,851
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**18,975**	11,588	(18)
Net earnings from continuing operations	**5,798**	2,843	(3,385)
per share	**$ 0.26**	$ 0.13	$ (0.16)
Net earnings	**5,798**	2,249	(3,385)
per share	**$ 0.26**	$ 0.10	$ (0.16)
Cash flow from continuing operations	**13,593**	8,440	2,012
per share	**$ 0.60**	$ 0.37	$ 0.10
Capital expenditures, excluding acquisitions	**12,431**	11,435	6,616
Total long-term debt, including current portion	**16,205**	4,326	3,516
Shareholders' equity	**60,042**	51,195	48,426
Common shares outstanding	**22,678**	22,595	22,508

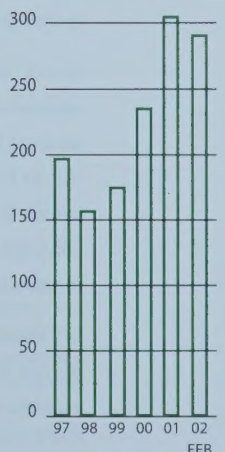
REVENUE
$ thousands



EARNINGS PER SHARE
dollars



EMPLOYEES
as at December 31,

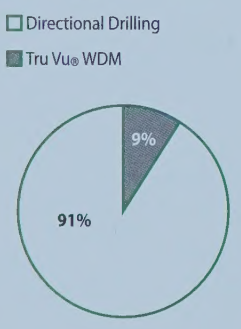


President's Message

This past year has been one of significant achievement for your Company. We have expanded our operational capabilities in terms of gross revenue, geographic locations, and technology. During 2001, our Technology Innovation Group focused its efforts on improving our existing technology and adapting its functionality to address newly expanded markets. We successfully integrated our January 2001 directional drilling acquisition, growing revenue in this segment to $87.4 million. We also expanded our international operation in Venezuela and we established Ryan's Tru Vu® Well Site Data Management ("WDM") business in both Venezuela and the United States, growing the revenue from this segment to $8.3 million. The employees and management of Ryan are excited about our accomplishments and look forward to future opportunities.

During 2001, Ryan generated $95.7 million in revenue, an increase of 52 percent, or $32.8 million, over the 2000 revenue of $62.9 million. This is also an increase of $68.4 million or 251 percent over the Company's 1999 revenue of $27.3 million. We also generated our second highest net earnings in the Company's ten-year history of $5.8 million or $0.26 per common share. This performance has only been exceeded once before in 1997, when Ryan generated net earnings of $6.4 million or $0.35 per common share.

REVENUE BY SEGMENT
$95.7 million



By achieving this growth we have significantly altered the composition of the Company's revenue base. During 2001, Ryan generated $52.8 million (55 percent) of its revenue from the United States, $36.3 million (38 percent) from Canada and $6.6 million (7 percent) from Venezuela. The growth in the Company's United States operation was achieved through the efforts of Ryan's United States employees who successfully integrated their operation with the directional drilling business acquired in early January 2001, established the Tru Vu® WDM business and took advantage of the strong market parameters to increase the United States based revenue by $33.4 million or 172 percent from the $19.4 million in revenue generated in 2000. Though it is likely that the anticipated reduction in drilling activity levels for 2002 will adversely affect this operation's revenue, we anticipate that growth will be achieved through the Tru Vu® WDM business and the introduction of new technology. These opportunities should assist in a partial offset to the decline anticipated in directional drilling revenue.

Ryan's Venezuelan employees continue to focus on equipment utilization and technology deployment. In Venezuela, Ryan provides measurement while drilling services and Tru Vu® WDM services. During 2001, revenue from this operation has increased by 175 percent to $6.6 million from the $2.4 million generated during 2000. We are also proud to announce that Ryan is the market leader in installed WDM systems in Venezuela and believe that this business unit will be able to continue to grow during 2002, provided the Venezuelan economic and political environment remains stable.

In Canada, Ryan met the challenge of an over supply of directional drilling services and an 11 percent decline in the number of oil and natural gas wells drilled using horizontal and directional drilling services. During 2001, revenue from this operation decreased by $4.8 million or 12 percent to $36.3 million. This compares to the $41.1 million in revenue generated during 2000. Though this



operation's revenue did decline from the record levels achieved in 2000, the $36.3 million in revenue represents the second highest revenue year for this operation in the Company's ten-year history and exceeds the 1997 revenue of $33.8 million by 7 percent. During 2002 we anticipate challenges will arise from the current industry expectation for lower drilling activity levels in 2002, as compared to the drilling activity levels encountered in 2001. In both the Canada and United States directional drilling business units we have already undertaken certain measures to position the Company for anticipated drilling activity reductions, while preparing the Company to respond to the upturn anticipated in late 2002.

Though 2002 will bring challenges, we also believe it will bring substantial opportunities. Ryan will continue to grow its Venezuela and Tru Vu® WDM business units and will take advantage of the anticipated market conditions to seek additional growth opportunities. Our Technology Innovation Group has embraced the opportunities of change. Throughout 2002, these capable individuals will focus their efforts on the development and commercialization of new technologies. In addition to the continued development of its existing technology, Ryan is presently seeking an opportunity to field-test its Range Extended Electromagnetic (EM) prototype and believes it will be capable of field-testing a resistivity service and improved memory and communications technology during the next twelve months.

These achievements would not have happened if it were not for the perseverance, adaptation and drive that is inherent in all Ryan employees. I would like to thank everyone at Ryan for their contribution to the Company's success in 2001 and encourage them to continue to embrace and exploit the opportunities of change and growth. With continued hard work and dedication, the employees and shareholders of Ryan will be rewarded with improved returns on capital, expanded opportunity and a strong platform for continued growth.

Richard T. Ryan
President and Chief Executive Officer
March 15, 2002

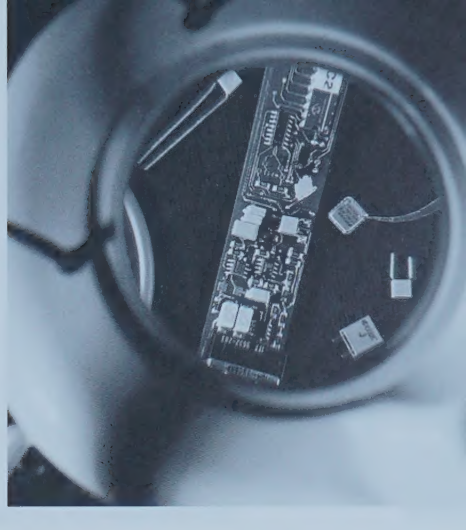
Certain statements included herein may constitute "forward-looking statements" within the meaning of certain securities legislative measures. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks include, but are not limited to, fluctuations of energy commodity prices, changes in levels of drilling activity, weather patterns, economic and political uncertainties in foreign jurisdictions, the impact of recent acquisitions and other factors described in the Company's publicly available securities filings.

Technology Innovation

Ryan believes in developing innovative technology that creates value for its oil and natural gas clients, differentiates the Company from its competition and achieves greater returns and stronger growth in its core business of horizontal and directional drilling. This commitment to technology has continued even though the market place in which the Company operates has changed significantly. Ryan will focus on enhancing its core technology through sustaining engineering, while developing and commercializing new technologies that have a strong applications-oriented target market.

Our sustaining engineering group continuously supports the operational needs of the Company's business units and presents technological solutions to improve overall performance, simplify operational procedures, decrease operating expenses, reduce costs of manufacturing and repairing equipment, and eliminate root causes of equipment failures. During 2001, this group made several key cost reducing enhancements to Ryan's electromagnetic ("EM") MWD transmitter and continued to improve the design, functionality and cost of a number of components of Ryan's pulse MWD. Most importantly this group, along with Ryan's field operation, initiated Ryan's Service Quality Initiative during the fourth quarter of 2001. This project has the sole objective of continuing the Company's commitment to improving the quality of its directional drilling services. This is to be achieved by focusing the Company's efforts on the identification and resolution of all opportunities for continuous improvements in Ryan's processes, personnel and equipment, along with the integration of Tru Vu® communication technology into Ryan's field operation.

To capitalize on its existing technology opportunities, the Technology Innovation Group has focused its efforts on enhancements to Ryan's existing technologies and to the commercialization of new systems for Ryan's existing markets. During 2001, this group modified Ryan's EM communication technology to reduce the system costs and improve reliability, commercially released a small diameter EM communication module for slim-hole applications such as coalbed methane gas projects, and has recently developed an initial prototype to test a unique concept of a range extended EM method, presently waiting for an appropriate field-test opportunity. The Technology Innovation Group also introduced a new multi-processing unit ("MPU") which is the heart of Ryan's new Dynamic Pressure Device (DPD-2). When combined with Tru Vu® this new technology enables the measurement of downhole pressure in both real-time and recorded modes and the presentation of that data real-time upon the client's desk. Ryan now has a fleet of DPD-2 tools operating in both Canada and the United States and is contemplating opportunities to deploy this technology in Venezuela, should the economic and political environment remain stable in this country. Ryan is also preparing to field-test its next generation Geological Steering Instrument (GSI-2) in both Canada and the United States.



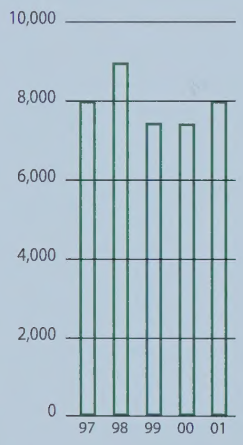
In addition to field-testing the range extended EM prototype the Company will continue to introduce new technologies to enhance its future opportunities. During 2002, the Technology Innovation Group plans to field-test an LWD Resistivity module, developed in cooperation with a third party, for primary use in the Gulf of Mexico region of the United States and in northern Canada. The group is also working on the development of a unique bi-directional EM system, which is to be field-tested in the fourth quarter of 2002. The Technology Innovation Group is also working on the introduction of new technology for improved MWD system memory and communication enhancements aimed at increasing the amount of data to be stored in the memory of sub-surface equipment and at improving the rate at which such expanded memory can be extracted from the tool on surface. If successful, these new technology initiatives are expected to open additional market opportunities for the Company's services and create an additional technological advantage over Ryan's regional competitors.

During 2001, the Company invested $1.2 million in the development of the initiatives described above and anticipates that during 2002 it will spend approximately $2.0 million on the development of technological innovations.

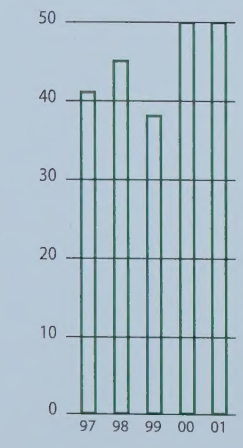
Operational Overview

Ryan generates revenue from two business segments being horizontal and directional drilling and well site data management ("Tru Vu® WDM"). During the year ended December 31, 2001, the Company generated $87.4 million (2000 – $60.3 million) in revenue from its directional drilling business unit, which operates in three geographic areas and $8.3 million (2000 – $2.6 million) from its Tru Vu® WDM business unit, which operates primarily in the United States and Venezuela. During 2001, Ryan's consolidated revenue of $95.7 million was generated $52.8 million (55 percent) from the United States, $36.3 million (38 percent) from Canada and $6.6 million (7 percent) from Venezuela.

REVENUE PER ACTIVITY DAY
United States, *$US*



EQUIPMENT UTILIZATION RATES
United States, *percent*



Horizontal and Directional Drilling Services

UNITED STATES

Ryan's strategic objectives include having a significant presence in the core markets in which the Company operates and establishing a platform through which Ryan can deliver its existing and future technology. To advance these strategies and build upon the previous accomplishments of this business unit, Ryan purchased the operating assets and business of a United States based directional drilling company in January 2001. This acquisition significantly increased Ryan's United States horizontal and directional drilling business. It also increased the United States business unit's concurrent job capacity from eleven to twenty-one systems, though the Company reduced this to twenty systems by redeploying one system to Venezuela in order to improve equipment utilization rates.

During 2001, Ryan's United States business unit focused its efforts on achieving revenue growth, increasing market share, increasing job capacity, improving equipment utilization and integrating the acquisition completed in January 2001. During the year ended December 31, 2001, the Company's United States business unit generated $US 30.1 million in revenue as compared to $US 11.9 million in revenue during the year ended December 31, 2000. This represents an increase of $US 18.2 million or 153 percent. In addition to the increase in revenue from the acquisition, revenue also increased as a result of increased drilling activity levels. During 2001, the number of oil and natural gas wells drilled in the United States increased by 26 percent to 13,864, as compared to 10,997 during 2000 and the number of wells drilled using horizontal and directional drilling services also increased from 3,270 wells, or 30 percent of the total number of oil and natural gas wells drilled in 2000, to 4,289 wells, or 31 percent of the total number of oil and natural gas wells drilled in 2001. This represents an increase in the number of horizontal and directional wells drilled of 31 percent. Ryan is proud to report that the achievements of this operation has made its United States directional drilling business unit the major revenue and profit contributor to the Company's overall performance.

Although it is likely that the anticipated reduction in the drilling activity levels for 2002 will have an adverse effect on the total revenue of this business unit, the United States directional drilling operation is pursuing several opportunities to generate new revenue and maintain its market share



by introducing new technologies, such as Ryan's slim-hole EM, DPD-2, GSI-2, LWD Resistivity, and the introduction of underbalanced drilling techniques. This business unit will also seek opportunities to reduce its costs by lowering its reliance on third party suppliers, increasing the utilization of Ryan's core technology and altering its job capacity. The business unit has already reacted to the lower anticipated drilling activity levels for 2002, as compared to 2001, by reducing its concurrent job capacity to fifteen as of February 15, 2002 from twenty as at December 31, 2001. In the event that drilling expectations improve, Ryan can increase its job capacity back to the December 31, 2001 levels without significant additional capital expenditures.

VENEZUELA

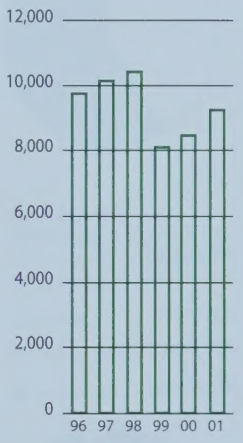
During 2001, Ryan's Venezuelan directional drilling business unit generated revenue of $US 3.1 million through the rental of four Measurement While Drilling ("MWD") systems to third parties. This compares to $US 1.3 million in MWD rental revenue during 2000. Though this business unit is a small component of Ryan's 2001 operation, it represents a significant opportunity for the Company, should the economic and political environment remain stable. Through international expansion Ryan expects to achieve a broader revenue base and a greater return on its technology investment.

CANADA

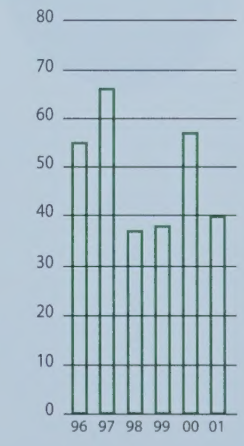
The Canadian directional drilling business unit generated revenue of $36.0 million for the year ended December 31, 2001 as compared to $40.7 million for the year ended December 31, 2000. This represents a decrease of $4.7 million or 12 percent. Though the number of oil and natural gas wells drilled increased by 9 percent during 2001 to 17,922, as compared to 16,485 during 2000, the number of wells drilled using horizontal and directional drilling services decreased from 5,012 wells, or 30 percent of the total number of oil and natural gas wells drilled during 2000, to 4,453 wells, or 25 percent of the total number of oil and natural gas wells drilled during 2001. This represents a decrease in the number of horizontal and directional wells drilled of 11 percent. At the start of 2001 this business unit held a concurrent job capacity of twenty-five, including four rented MWD systems. By year end the business unit had released the four rented systems but had acquired an additional owned system. Thus by December 31, 2001 the Canadian business unit had a concurrent job capacity of twenty-two. In anticipation of a reduction in drilling activity levels for 2002, as compared to 2001, the business unit has decreased its concurrent job capacity to fifteen as of February 15, 2002. In the event that drilling expectations improve, Ryan can increase its job capacity back to the December 31, 2001 levels without significant additional capital expenditures.

During 2002, the Canadian directional drilling business unit will focus its efforts on maintaining its market share, reducing the delivery cost of its services, lowering its reliance on third party equipment suppliers and selectively introducing new technologies such as Ryan's DPD-2, GSI-2, slim-hole EM and, when commercially available, its range extended EM tools. To ensure that the quality of its services remain high, Ryan has initiated a Service Quality Initiative aimed at the continuous improvement of Ryan's directional drilling services through improvements in Ryan's training

REVENUE PER ACTIVITY DAY
Canada, *$Cdn*

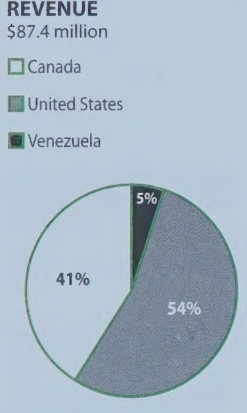


EQUIPMENT UTILIZATION RATES
Canada, *percent*



programs, improved equipment reliability and the integration of Tru Vu® communication technology into Ryan's field operation. The Company believes that Ryan's dedication to excellent service, strong training and safety programs, and focused marketing and sales efforts will continue to be of significant benefit to Ryan's customers.

DIRECTIONAL DRILLING REVENUE
$87.4 million

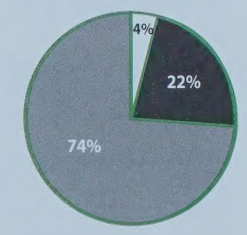


TRU VU® WELL SITE DATA MANAGEMENT

Tru Vu® WDM services are provided through Data Wise Solutions Inc. ("Data Wise"), a wholly owned subsidiary of Ryan, in the United States and Canada, and by Ryan Energy Technologies de Venezuela C.A., in Venezuela. The business plan for this service is focused on increasing revenue and net earnings in this business unit's three main business lines: well site data management, software licensing and hardware sales.

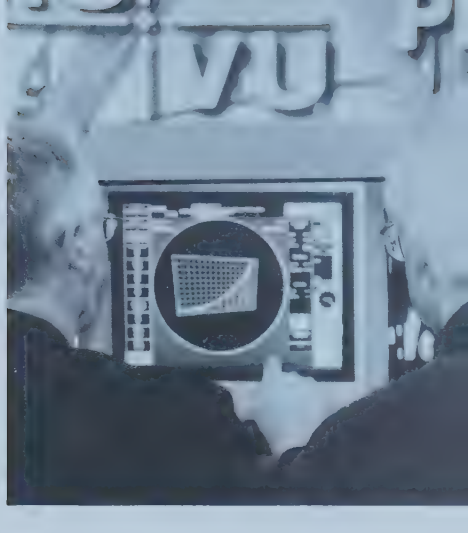
Tru Vu® the core technology of Data Wise Solutions Inc., is an industry leading data acquisition, integration and management tool. It is an open-architecture system designed for oilfield data collection. This software is extremely flexible and can function as an electronic drilling recorder, MWD/LWD data acquisition system, underbalanced drilling data system, mud logging system, wireline logging system, or production logging system. Its open-architecture design allows for further configuration flexibility on a cost effective basis.

Tru Vu® REVENUE
$8.3 million



Data Wise has continued to develop Tru Vu® software enhancements to meet its ever-expanding customer requirements. In 2001, Tru Vu®PRO software was enhanced to include additional operational reporting capabilities and Tru Vu®WEB was modified to enhance features which allow data to be viewed from any Internet connection, permitting the integration of geo-technical and administrative systems and accommodating real-time data distribution simultaneously to a number of operators.

During 2001, the Tru Vu® WDM business unit generated revenue of $8.3 million as compared to $2.6 million during the year ended December 31, 2000. This represents an increase of $5.7 million or 219 percent. The increase in revenue has encouraged the Company to continue its efforts for expanding this business unit with a greater focus on improving both revenue and returns. Ryan's Tru Vu® WDM services are provided in the United States, Venezuela and Canada. In the United States, the business unit generated $6.2 million in revenue and has available for deployment seventy Tru Vu® WDM systems as of December 31, 2001. During 2002, the Company believes it can continue to expand its market share in WDM services, even in a declining market, through improved utilization of existing equipment. In Venezuela, the business unit generated $1.8 million in revenue and has twenty-eight Tru Vu® WDM systems available for deployment as of December 31, 2001. In Venezuela, Ryan is the market leader having the largest installed base of WDM systems in that market and the Company anticipates that, should the economic and political environment in Venezuela remain stable, the number of Tru Vu® WDM systems deployed should continue to grow. In Canada, there are twelve Tru Vu® WDM systems available for use in the underbalanced drilling market segment, which generated $0.3 million in revenue for the year ended December 31, 2001.



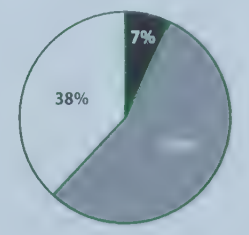
During 2002, Data Wise intends to expand its business, while focusing on improving the returns it generates. This may include licensing Tru Vu® technology and developing unique hardware configurations for third parties. The Company presently believes that as the oil and natural gas producers become accustomed to the availability of real-time data they will expand their informational requirements to other services wherein Tru Vu® technology will have further applications.

Corporate

Acquisition and consolidation opportunities are part of the growth plan of Ryan. To maintain the pace of revenue growth, the Company will continue to grow its existing business units, as outlined above, and will seek appropriate acquisitions. Such transactions will be considered when they meet criteria based on competitive strategies or add technology that is compatible with Ryan's core businesses and areas of operation.

The Company will focus on creating technology that will deliver results and returns within an eighteen-month time frame. Throughout 2001, Ryan's Technology Innovation and Tru Vu® groups made significant strides in creating a culture of building technology that has an early and direct impact on Ryan's field operation. With this focus, the expanding needs of the Company's clients will be served while creating returns that are acceptable to Ryan's shareholders.

DIVERSIFIED REVENUE BASE
Consolidated Operations
$95.7 million



Health, Safety and Environment

Our employees' safety is a paramount concern in all facets of our operation and in all regions in which we operate. The Company has in place formal safety policies and procedures, and has a dedicated safety professional, in its core business units, to monitor the adherence to these policies. We are pleased to report that an independent audit of Ryan's safety program was successfully completed during the fourth quarter of 2001. To ensure that the Company continues to maintain as high a safety rating as possible during its continued growth, the Company plans to continuously improve its policies, procedures and safety program. This will be achieved through Ryan's Health, Safety and Environment ("HSE") management committee. The purpose of this committee is to identify and rectify HSE issues as they arise.

The Company strives to operate in a manner that minimizes any adverse effects on our environment. During 2001, the Company reported no environmental incidents. Additionally, during all acquisition reviews the Company has independent third parties perform Phase I environmental assessments on all real property acquired or leased to minimize any future exposure to adverse environmental circumstances.

Management's Discussion and Analysis

The following discussion is based upon the Company's Consolidated Financial Statements, which were prepared in accordance with Canadian generally accepted accounting principles. Note 1 to the Company's Consolidated Financial Statements sets forth the significant accounting policies applied by the Company. The following analysis of the financial condition and results from operations of the Company should be read in conjunction with the Company's Consolidated Financial Statements.

Certain statements included herein may constitute "forward-looking statements" within the meaning of certain securities legislative measures. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks include, but are not limited to, fluctuations of energy commodity prices, changes in levels of drilling activity, weather patterns, economic and political uncertainties in foreign jurisdictions, the impact of recent acquisitions and other factors described in the Company's publicly available securities filings.

Ryan Energy Technologies Inc., directly and through its wholly owned subsidiaries Ryan Energy Technologies USA, Inc., Ryan Energy Technologies de Venezuela, C.A., and Data Wise Solutions Inc. (collectively "Ryan" or "the Company"), provides measurement while drilling, logging while drilling ("MWD/LWD"), and horizontal and directional drilling services in Canada, the United States and Venezuela. The Company also provides Tru Vu® well site data management ("WDM") services in these same locations. Management believes that Ryan possesses proprietary technology and tools used in the provision of the Company's services which only a few of its competitors possess. Ryan maintains a technology innovation group in Calgary, Alberta, to develop and assemble certain technologies, tools and ancillary equipment, which it uses in its horizontal and directional drilling operation. Software and equipment required for use in the provision of Tru Vu® well site data management services and for sale to third parties are developed and assembled in the Company's Houston, Texas facility. Ryan's competition comprises a number of smaller regional companies, which do not have the same access to proprietary technology development or resources as the Company, and larger multi-national companies, which have greater resources than the Company and operate in a variety of geographic locations including those in which Ryan operates.

COMMODITY PRICES



Source: Nickle's Daily Oil Bulletin

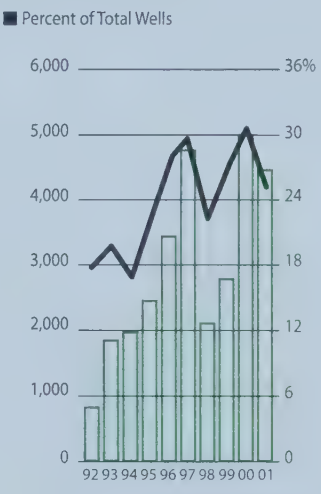
Activity Indicators

Ryan operates in the oilfield service sector where the demand for its services and products and the results from its operation is influenced by the levels of drilling activity, the proportion of wells which are drilled horizontally or directionally and the levels of exploration and development expenditures made by oil and natural gas producers. These activity levels are in turn influenced by the prices of oil and natural gas.



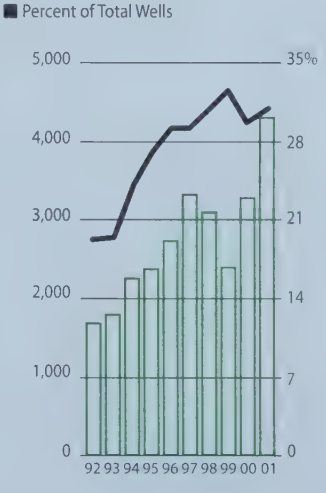
During the year ended December 31, 2001 a total of 17,922 (2000 – 16,485; 1999 – 10,452) wells were drilled in western Canada of which 4,453 (2000 – 5,012; 1999 – 2,784) were drilled horizontally or directionally. In the United States a total of 13,864 (2000 – 10,997; 1999 – 7,292) wells were drilled of which 4,289 (2000 – 3,270; 1999 – 2,374) were drilled horizontally or directionally.

HORIZONTAL AND DIRECTIONAL WELLS DRILLED IN WESTERN CANADA



Source: Nickle's Daily Oil Bulletin

HORIZONTAL AND DIRECTIONAL WELLS DRILLED IN THE UNITED STATES



Source: Baker Hughes

Results from Operations

2001 VERSUS 2000

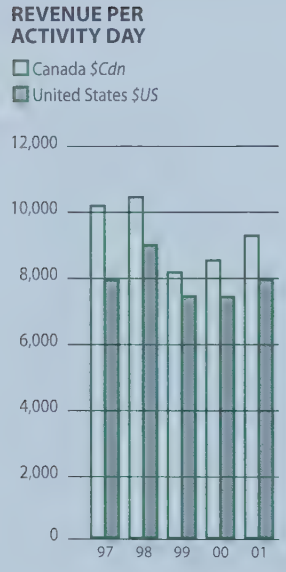
Ryan generated $95.7 million in revenue for the year ended December 31, 2001 as compared to $62.9 million during the year ended December 31, 2000, an increase of $32.8 million or 52 percent. Ryan's 2001 revenue was comprised of $87.4 million from the provision of MWD/LWD and horizontal and directional drilling services and $8.3 million from the provision of Tru Vu® well site data management services, equipment sales and licenses. During 2001, Ryan continued its efforts to establish its Tru Vu® product line, achieving improvements in revenue that continue to encourage the Company about this product's future and enable Ryan to focus the business unit's future efforts on improving both revenue and returns. During 2000, Ryan's revenue was comprised of $60.3 million from the provision of MWD/LWD and horizontal and directional drilling services and $2.6 million from the provision of Tru Vu® well site data management services, equipment sales and licenses. This resulted in net earnings from continuing operations of $5.8 million or $0.26 per common share for the year ended December 31, 2001 as compared to net earnings from continuing operations of $2.8 million or $0.13 per common share for the year ended December 31, 2000.

Ryan's consolidated revenue of $95.7 million was generated $52.8 million (55 percent) from the United States, $36.3 million (38 percent) from Canada and $6.6 million (7 percent) from Venezuela. This compares to consolidated revenue of $62.9 million during 2000 that was generated $19.4 million (31 percent) from the United States, $41.1 million (65 percent) from Canada and $2.4 million (4 percent) from Venezuela. As evidenced by the increase in drilling activity levels, exploration and development expenditures by oil and natural gas companies in the United States and western Canada increased during 2001 as compared to 2000. This increase in activity and the acquisition of a United States based directional drilling operation had a significant impact on Ryan's revenue. Market share expansion resulted in the increased Venezuela revenue.

Revenue from the Company's operation in the United States was $52.8 million during 2001 as compared to $19.4 million for the year ended December 31, 2000, an increase of $33.4 million or 172 percent. Ryan's United States operation in 2001 was concentrated in the region surrounding the Gulf of Mexico and in the northeastern region of the United States. In the region surrounding the Gulf of Mexico it provides services to the offshore and on-shore markets adjoining the Gulf. During 2001, oil and natural gas companies drilled 4,289 horizontal and directional wells (31 percent of all wells drilled) in the United States as compared to 3,270 (30 percent of all wells drilled) during 2000, representing a 31 percent increase in the number of horizontal and directional wells drilled.

As a result, the demand for the Company's services has increased although competitive pressures remain strong. Ryan's United States average revenue per activity day of $US 7,901 increased by 7 percent over the 2000 average revenue per activity day of $US 7,369. The Company increased its horizontal and directional drilling concurrent job capacity in the United States from eleven in the fourth quarter of 2000 to twenty during 2001 through the acquisition of a United States based horizontal and directional drilling business in January 2001. As at December 31, 2001 the Company had seventy Tru Vu® systems available to provide well site data management services in the United States as compared to twenty Tru Vu® systems as at December 31, 2000.

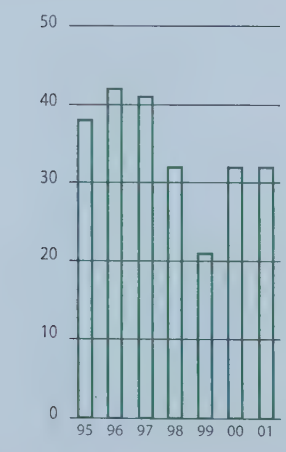
REVENUE PER ACTIVITY DAY



Revenue from Ryan's Canadian operation decreased to $36.3 million during the year ended December 31, 2001 from $41.1 million during the year ended December 31, 2000, a decrease of $4.8 million or 12 percent. Although the number of wells drilled in western Canada increased by 9 percent in 2001 the number of horizontal and directional wells drilled decreased by 11 percent. During 2001, oil and natural gas companies drilled 4,453 (25 percent of all the wells drilled) horizontal and directional wells as compared to 5,012 (30 percent of all the wells drilled) during 2000. Ryan's average revenue per activity day in western Canada increased to $9,233 for the year ended December 31, 2001 from $8,483 for the year ended December 31, 2000, an increase of 9 percent. Ryan, in reaction to the decline in the number of horizontal and directional wells being drilled, reduced its horizontal and directional drilling concurrent job capacity to twenty-two as of December 31, 2001 as compared to twenty-five as of December 31, 2000. As at December 31, 2001 the Canadian operation also had twelve Tru Vu® systems available to provide services in underbalanced drilling applications, unchanged from December 31, 2000.

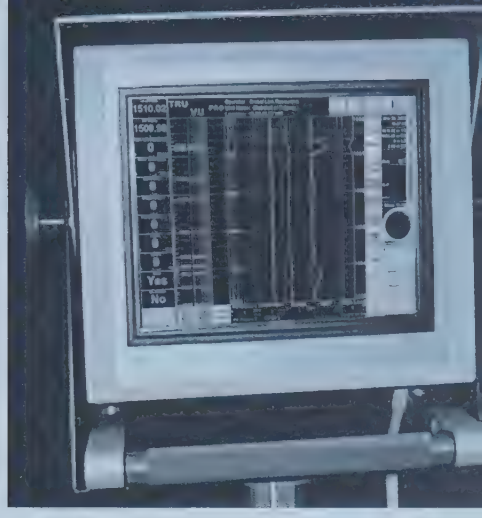
The Company's Venezuela revenue increased by $4.2 million to $6.6 million for the year ended December 31, 2001. Ryan continues to view Venezuela as a means to leverage its technology and improve the utilization of its MWD/LWD and Tru Vu® equipment and personnel. As of December 31, 2001, Ryan had a concurrent job capability of four MWD/LWD systems and twenty-eight Tru Vu® well site data management systems in Venezuela.

GROSS PROFIT MARGIN
percent



Direct costs comprise field related expenses as well as costs directly attributed to the provision of the Company's services such as sustaining engineering, well planning and coordination, and related facility costs. These expenditures amounted to $65.5 million for the year ended December 31, 2001 as compared to $42.8 million for the year ended December 31, 2000, an increase of $22.7 million or 53 percent, and represented 68 percent of revenue during both 2001 and 2000. This resulted in a gross profit of 32 percent of revenue in both years.

General, administrative and marketing expenses for the year ended December 31, 2001 increased to $9.5 million as compared to $7.1 million for the year ended December 31, 2000. This represents an increase of $2.4 million or 34 percent. This increase is a result of the Company's expansion of its directional drilling services in the United States and Venezuela and the growth of its Tru Vu® well site data management services. As a percentage of revenue these expenses decreased from 11 percent for the year ended December 31, 2000 to 10 percent of revenue for the year ended December 31, 2001.



During the year ended December 31, 2001, Ryan's expenditures on research and development activities were focused on advancing and enhancing the rate of market acceptance of previously released products. During 2001, the Company incurred $1.2 million of research and development costs of which $0.6 million was expensed. This compares to $1.8 million in research and development costs during 2000 of which $0.6 million was expensed. In addition to enhancements made to Ryan's existing technology, the Company also released a commercial version of its slim-hole EM communication module and developed a prototype module for range extended EM communications, which is presently waiting for a field-test opportunity.

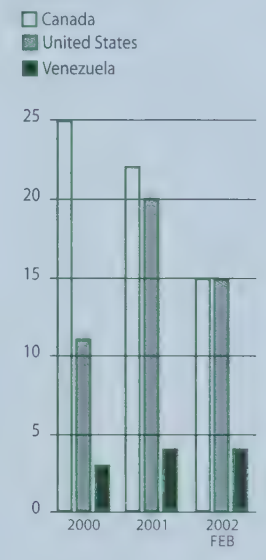
Interest expense on borrowings increased to $1.3 million from $0.4 million as a result of the acquisition of a United States based horizontal and directional drilling business and increased working capital requirements to fund the increase in activity. During 2001, Ryan provided for $1.2 million in potential bad debt expense as compared to $0.7 million during 2000. These provisions were recorded in order to reflect the risk associated with the Company's pursuit of expansion opportunities in a variety of markets and represents 1 percent of revenue in both 2001 and 2000.

The amortization of intangible assets and property, plant and equipment increased to $7.7 million for the year ended December 31, 2001 as compared to $5.6 million for the year ended December 31, 2000. Capital expenditures of $12.4 million and business acquisitions of $15.6 million accounted for the increase in this expense. The amortization of goodwill, net of income taxes, increased to $0.6 million during 2001 as compared to $0.4 million during 2000 as a result of business acquisitions. During the first quarter of 2002, the Company will be adopting the new provisions of the Canadian Institute of Chartered Accountants accounting standards for Goodwill and Intangible Assets. It is presently contemplated that the adoption of these new accounting standards will change the Company's definition of intangible assets and goodwill, modify the level in the organization at which the carrying value of goodwill is assessed for potential impairment and require the Company to adopt a business valuation approach for assessing the carrying value of goodwill. The effects of these changes are presently under review.

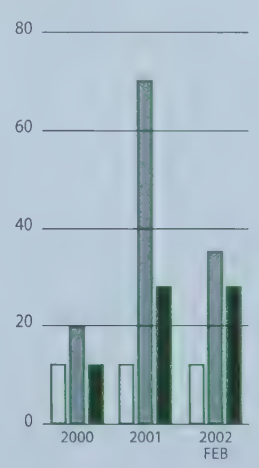
The Company reported an income tax expense of $3.6 million during the year ended December 31, 2001 as compared to an income tax expense of $2.3 million during the year ended December 31, 2000.

The Company reported net earnings of $5.8 million ($0.26 per share) for the year ended December 31, 2001 compared to net earnings of $2.2 million ($0.10 per share) for the year ended December 31, 2000. Cash flow from operations, before changes in non-cash working capital balances, was $13.6 million in 2001, compared to $8.4 million in 2000.

JOB CAPACITY
for DIRECTIONAL DRILLING
as at December 31,



JOB CAPACITY
for Tru Vu® WDM
as at December 31,



2000 VERSUS 1999

Ryan generated $62.9 million in revenue for the year ended December 31, 2000 as compared to $27.3 million during the year ended December 31,1999, an increase of $35.6 million or 130 percent. Ryan's 2000 revenue was comprised of $60.3 million from the provision of MWD/LWD and horizontal and directional drilling services and $2.6 million from the provision of Tru Vu® well site data management services, equipment sales and licenses. This resulted in net earnings from continuing operations of $2.8 million or $0.13 per common share as compared to a net loss of $3.4 million or $0.16 per common share during 1999.

Exploration and development expenditures by oil and natural gas companies in western Canada began to increase in late 1999 and continued throughout 2000. This increase in activity had a significant impact on Ryan's Canadian revenue. Other markets however, were much slower to respond to the improvements in commodity pricing and did not experience an increase in activity until June 2000.

Revenue from the Company's operation in the United States was $19.4 million during 2000 as compared to $14.0 million for the year ended December 31, 1999, an increase of $5.4 million or 39 percent. Ryan's United States operation in 2000 was concentrated in the region surrounding the Gulf of Mexico where it provides services to the shallow and inland water markets and on-shore locations adjoining the Gulf. During 2000, oil and natural gas companies drilled 3,270 horizontal and directional wells in the United States as compared to 2,374 during 1999, an increase of 38 percent. Drilling activity in the United States began to improve during June 2000 and, as a result the demand for the Company's services, increased although competitive pressures remain strong. Ryan's United States average revenue per activity day of $US 7,369 remained consistent with the 1999 average level of $US 7,383. The Company increased its horizontal and directional drilling concurrent job capacity in the United States from eight during 1999 to eleven by the fourth quarter of 2000. As at December 31, 2000 the Company had twenty Tru Vu® systems deployed in well site data management services in the United States as compared to ten as at December 31, 1999.

Revenue from Ryan's Canadian operation increased to $41.1 million during the year ended December 31, 2000 from $12.8 million during the year ended December 31, 1999, an increase of $28.3 million or 221 percent. Significant increases in western Canadian drilling activity and the Company's deliberate focus on improving market share were factors in generating the growth in Canadian based revenue. During 2000, oil and natural gas companies drilled 5,012 horizontal and directional wells as compared to 2,784 during 1999, an increase of 80 percent. Ryan's average revenue per activity day in western Canada increased to $8,483 for the year ended December 31, 2000 from $8,120 for the year ended December 31, 1999, an increase of 5 percent. The acquisition of Whipstock Systems Inc. on November 18, 1999 added an additional three job capacity and enabled Ryan to commence 2000 with a twenty concurrent job capacity in horizontal and directional drilling, which it increased to twenty-five by year end. As at December 31, 2000 the Canadian operation also had twelve Tru Vu® systems deployed in underbalanced drilling applications as compared to four systems as at December 31, 1999.



Ryan decided to discontinue its operation in Abu Dhabi in April 2000. Since establishing an operational base in this region in the latter part of 1999, the Company successfully drilled two offshore wells in the first quarter of 2000 generating revenue of $0.5 million. Though these wells were technical successes, proving Ryan's ability to drill in difficult and new environments, the equipment configurations and client-imposed specifications precluded Ryan from utilizing some of its own equipment. As a result, Ryan incurred an after tax operating loss during the first three months of 2000 totaling $0.2 million from this operation. As the equipment could be better utilized in North America and there existed no assurances that the Company would secure more lucrative contracts in the near future, the Company terminated its operation in Abu Dhabi. After providing for the costs associated with closing this operation Ryan incurred a loss from discontinued operations of $0.6 million or $0.03 per common share, net of revenues of $0.5 million and income tax recoveries of $0.2 million.

Despite the closure of Ryan's operation base in Abu Dhabi during 2000, the Company increased its international presence through Venezuela. Revenue from Venezuela increased by $1.9 million to $2.4 million for the year ended December 31, 2000. As of December 31, 2000, Ryan had a concurrent job capability of three MWD/LWD systems and twelve Tru Vu® well site data management systems in Venezuela.

Direct costs amounted to $42.8 million for the year ended December 31, 2000 as compared to $21.5 million for the year ended December 31, 1999, an increase of $21.3 million or 99 percent, and represented 68 percent of revenue during 2000 as compared to 79 percent during 1999. This resulted in an improvement in Ryan's gross profit to 32 percent of revenue in 2000 from 21 percent of revenue during 1999. The primary factors leading to the improved gross profit margins were increased equipment and personnel utilization, reduced reliance on third party suppliers for rental equipment and repairs, improved training techniques and the continued introduction of Ryan's EM technology.

General, administrative and marketing expenses for the year ended December 31, 2000 increased to $7.1 million as compared to $4.9 million for the year ended December 31, 1999. This represents an increase of $2.2 million or 45 percent. This increase is a result of the Company's expansion in Venezuela and of its Tru Vu® well site data management services, its variable compensation arrangements and increased sales and marketing activities aimed at improving its Canadian and United States market shares. As a percentage of revenue these expenses decreased from 18 percent for the year ended December 31, 1999 to 11 percent of revenue for the year ended December 31, 2000.

During the year ended December 31, 2000, Ryan increased its expenditures on research and development activities in an effort to further advance its technology. During 2000, the Company incurred $1.8 million of research and development costs of which $0.6 million was expensed. This compares to $0.9 million in research and development costs during 1999 of which $0.4 million was expensed. Interest expense on borrowings increased to $0.4 million from $0.3 million as a result

of increased working capital requirements to fund the increase in activity. The bad debt expense incurred during 2000 and 1999 resulted from the business failure of two Canadian oil and natural gas companies.

The amortization of intangible assets and property, plant and equipment increased to $5.6 million for the year ended December 31, 2000 as compared to $4.2 million for the year ended December 31, 1999. Capital expenditures of $11.4 million and the Whipstock acquisition in November 1999 accounted for the increase in this expense. The amortization of goodwill, net of income taxes, was $0.4 million during both 2000 and 1999.

The Company reported an income tax expense of $2.3 million during the year ended December 31, 2000 as compared to an income tax recovery of $1.5 million during the year ended December 31, 1999. Ryan also retroactively adopted the Canadian Institute of Chartered Accountants (CICA) new recommendations for accounting for income taxes, which requires the use of the liability method as more fully explained in Note 2 to the Consolidated Financial Statements of the Company. As a result of this change in accounting policy, opening retained earnings for the year ended December 31, 2000 were decreased by $0.5 million due to the effect of the change in accounting policy on the prior years. Prior years have not been restated to reflect the effect of this change in accounting policy.

The Company reported net earnings of $2.2 million ($0.10 per share) for the year ended December 31, 2000 compared to a net loss of $3.4 million ($0.16 per share) for the year ended December 31, 1999. Cash flow from operations, before changes in non-cash working capital balances, was $8.4 million in 2000, compared to $2.0 million in 1999.

Capital Resources and Liquidity

At December 31, 2001, the Company held $3.3 million in cash and had drawn $1.8 million on its bank operating line of credit. This compares to $56,000 in cash as at December 31, 2000 with no drawings on its bank operating line of credit. The Company had net working capital of $11.9 million at December 31, 2001 compared to $13.8 million at December 31, 2000.

On December 31, 2001 Ryan had two bank credit facilities. The first was a $5.0 million revolving operating line of credit with a Canadian bank bearing interest at the bank's prime rate plus 0.25 percent. This facility was due on demand and was to be renewed annually. There were $1.8 million in drawings on this facility at December 31, 2001. Ryan's second credit facility was a $20.0 million term facility bearing interest at the bank's prime rate plus 0.75 percent. Repayments were to be made over a forty-two month period commencing on January 26, 2001. As of December 31, 2001, the Company had outstanding $14.0 million under the term loan facility, of which the current portion was $4.0 million. These two Canadian bank facilities were collateralized by a pledge of accounts receivable and inventories, an assignment of book debts and a charge on



all assets of the Company. These facilities required the Company to maintain certain financial ratios, and place limits on capital expenditures, the incurrence of new debt, distributions of capital and the payment of dividends. At December 31, 2001 the Company and its subsidiaries were in compliance with the terms of these facilities.

On February 12, 2002, the Company repaid and replaced these two bank credit facilities with new credit facilities as follows:

- A $5.0 million demand, revolving operating line of credit from a Canadian bank to the Company bearing interest at the bank's prime rate plus 0.25 percent. Borrowings under this facility may also be made by way of Bankers' Acceptances. This operating line of credit is to be renewed annually. The maximum amount available to the Company is subject to a margin formula based on the Company's Canadian receivables. Applying these margin requirements as of December 31, 2001 resulted in a maximum availability of $4.5 million. As of February 15, 2002 the Company had not drawn on this facility.

- A $US 5.0 million demand, revolving operating line of credit from a United States subsidiary of a Canadian bank to the Company's United States subsidiaries bearing interest at the bank's United States prime rate plus 0.25 percent. This operating line of credit is to be renewed annually. The maximum amount available to the Company is subject to a margin formula based on the receivables of the Company's United States subsidiaries. Applying these margin requirements as of December 31, 2001 resulted in a maximum availability of $US 4.1 million. As of February 15, 2002 the subsidiaries of the Company had not drawn on this facility.

- A $US 10.0 million committed term loan from a Canadian bank to a partnership controlled in its entirety by the Company and a subsidiary. This term loan requires monthly repayments of $US 0.2 million and bears interest at the bank's United States prime rate plus 1.0 percent. Drawings on this facility may also be advanced through LIBOR loans at the banks LIBOR loan rate plus 4.0 percent. This committed facility is to be renewed in twenty-four months from its inception. As of February 15, 2002 the partnership had borrowed $US 10.0 million under this facility.

These new credit facilities are collateralized through a general security agreement, a floating charge on all real property and land, guarantees from the Company's subsidiaries and an assignment of receivables and insurance policies of the Company. These facilities also contain restrictive covenants on the Company requiring the maintenance of certain financial ratios, the limitation on the incurrence of additional debt and a limitation on the ability of the Company to pay dividends and make capital distributions. As of February 15, 2002 the Company and its subsidiaries were in compliance with the terms of these facilities.

During 2000, the Company obtained a $0.6 million mortgage facility with a Canadian bank. Principal and interest is repayable over a fifteen-year amortization at $5,599 per month and is to be renewed annually. The indebtedness is collateralized with a mortgage on certain property and

buildings located in Calgary, Alberta and bears interest at the bank's prime rate plus 1.25 percent per annum. At December 31, 2001, $0.5 million of principal was outstanding under this facility, of which the current portion was $0.02 million. As of February 15, 2002 the Company had $0.5 million outstanding under this facility.

During 1999, the Company negotiated a $3.0 million term facility under a sale/leaseback arrangement with a Canadian bank. Principal and interest is repayable over a five and one-half year term at $56,593 per month. The indebtedness is collateralized by equipment subject to the sale/leaseback arrangement and bears interest of 8.15 percent per annum. At December 31, 2001, $1.7 million of principal was outstanding under this facility, of which the current portion was $0.5 million. As of February 15, 2002 the Company had $1.6 million outstanding under this facility.

The Company believes that the above facilities provide it with sufficient flexibility to fund its operations and capital asset acquisitions for the upcoming year.

Investing Activity

For the year ended December 31, 2001, the Company incurred capital expenditures of $12.4 million compared to capital expenditures of $11.4 million for the year ended December 31, 2000.

At December 31, 2001, the Company had equipment capacity of forty-six owned MWD/LWD systems and one hundred ten Tru Vu® well site data management systems. Included in this total is the ability to deploy twelve EM systems. At December 31, 2000, the Company maintained equipment capacity of forty-nine MWD/LWD systems, including four rented systems, and forty-four Tru Vu® well site data management systems. Based on a client's requirements, equipment configurations can vary; thus, quantifying system capability may not be an accurate measure in some circumstances. In addition, previously capitalized systems and equipment may be subsequently sold to customers together with a licensing fee charged for software utilization. Ryan's EM and MWD systems comprise separate modules that integrate with Ryan's existing MWD/LWD equipment, as opposed to replacing MWD/LWD equipment entirely. This precludes having to build unique MWD/LWD equipment for each type of transmission method whether conventional mud pulse or EM. This application of modularity greatly reduces capital investment, while providing flexibility related to MWD/LWD equipment configurations.

The Company capitalized development costs of $0.6 million during 2001, compared to $1.2 million in 2000. Costs associated with the development of Ryan's next generation EM technology, Range Extended EM Technology, Geological Steering Instrument and Dynamic Pressure Device accounted for substantially all of the capitalized development amounts in 2001. Additional capital expenditures in the year included the acquisition of well site data management systems, downhole drilling motors and drill collars.



Projected Cash Requirements

In 2001, the Company relied on internally generated cash flow and additional debt to fund its capital expenditure and acquisition program. It is anticipated that the Company will continue to rely on these sources of financing to fund the majority of its 2002 capital expenditure program. The Company had long-term debt, including the current portion, of $16.2 million at December 31, 2001 and $18.0 million as of February 15, 2002.

The Company believes technical innovation coupled with superior field performance reduces its clients' risks associated with oil and natural gas drilling and improves the recoverability of oil and natural gas reserves. Technical innovation also provides the Company with a competitive advantage over many of its smaller competitors in each area in which it operates. In 2002, capital expenditures will reflect the Company's focus on new technologies that provide value to its clients. During 2002 the Company will deploy additional Dynamic Pressure Devices and Geological Steering Instruments for utilization in Canada and the United States, expand its Venezuela operation and expand its downhole motor fleet to reduce its reliance on external motor suppliers. Expansion in Ryan's Tru Vu® well site data management services will be dependent upon market conditions and the creation of new opportunities.

In 2002, the Company's capital expenditure budget, which totals $8.0 million excluding acquisitions, will reflect its commitment to the development of new technologies. Ryan's engineering and development facilities are located in Calgary, Alberta. The Company has budgeted an additional $2.0 million for engineering and development activities primarily centered on continued enhancements to Ryan's technologies and other advanced methods of communicating information while drilling. These capital expenditures will be monitored closely throughout 2002 and will be adjusted to meet the Company's needs given the market conditions present during the year.

Business Risks and Outlook

The number of horizontal and directional wells drilled during the last six months of 2001 were 1 percent lower in the United States and 19 percent lower in Canada than during the first six months of 2001. This occurred as the overall level of industry drilling activity during the last six months of 2001 was impacted by the lower prices for oil and natural gas, which impacted Ryan's customers' cash flows and influenced their exploration and development expenditures. The oil and natural gas service industry, of which MWD/LWD, horizontal and directional drilling are a part, is dependent upon these exploration and development expenditures for its revenue sources. Oil and natural gas prices have exhibited considerable volatility over time and are expected to continue to be volatile in the future. It is management's belief that the overall level of drilling activity in the market places in which Ryan operates will be lower in 2002 than those levels experienced during 2001. This will result in lower results from operations during the first six months of 2002 as compared to the last six month period of 2001. The Company responds to changing market conditions by managing its concurrent

job capacity, capital expenditures and overhead levels to reflect changes in the level of activity. As of February 15, 2002, Ryan reduced its concurrent horizontal and directional drilling job capacity, through reductions in the number of field staff, to thirty-four, reduced the number of deployed well site data management systems to seventy and lowered the number of support and administrative positions within the Company. When drilling expectations improve, Ryan may increase its concurrent job capacity back to the levels present at December 31, 2001, without significant capital investment.

The availability of skilled employees and technological advances will continue to have a dramatic effect on the success and cost of the drilling process. Ryan's ability to compete effectively will be impacted by its ability to attract and retain skilled employees and its ability to develop and procure new technologies. During periods of increased drilling activity the demand for personnel and key technologies increases throughout the industry, which in turn exerts additional cost pressures on the Company and its competitors.

Ryan's competitors include a number of smaller regional companies, which do not have the same access to proprietary technology development or resources as the Company, and larger multi-national companies, which have greater resources than the Company and operate in a variety of geographic locations including those in which Ryan operates.

Geographic expansion is a key component of Ryan's growth strategy. The Company believes it requires significant representation in certain oil and natural gas producing regions in order to emerge as a prominent intermediate horizontal and directional company in its industry. The Company takes a conservative approach in its expansion internationally, ensuring internal risk standards are met before a decision is made to invest in certain foreign operations. However, political and financial risk associated with this expansion cannot be fully mitigated and the success in these foreign jurisdictions will depend in part on the Company's ability to manage these risks.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with accounting principles generally accepted in Canada and has made any significant accounting judgements and estimates required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring Management meets their financial reporting responsibilities.

The Audit Committee consists solely of directors who are not officers of the Company and reviews with Management and the external auditors the annual consolidated financial statements of the Company prior to the submission to the Board of Directors for final approval.

Richard T. Ryan
President and Chief Executive Officer

Leonard A. Cornez, C.A.
Vice President Finance and Chief Financial Officer

Auditors' Report

To the Board of Directors of Ryan Energy Technologies Inc.

We have audited the consolidated balance sheets of Ryan Energy Technologies Inc. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for each of the three years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and the changes in cash flows for each of the three years in the three-year period ended December 31, 2001, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Canada
February 15, 2002

Consolidated Balance Sheets

(stated in thousands of Canadian dollars)	December 31, 2001	2000
Assets		
Current assets		
Cash and cash equivalents	$ 1,494	$ 56
Accounts receivable	24,328	19,887
Corporate income taxes receivable	644	2,898
Inventory (Note 3)	5,183	1,536
Prepaid expenses and other assets	594	378
	32,243	24,755
Property, plant and equipment - net (Note 4)	45,072	32,532
Intangible assets - net (Note 5)	4,473	4,682
Goodwill - net	15,303	8,206
	$ 97,091	$ 70,175
Liabilities		
Current liabilities		
Accounts payable	$ 7,685	$ 4,656
Accrued liabilities:		
Salaries and wages	1,188	1,290
Other	6,686	4,024
Current portion of long-term debt (Note 7)	4,711	990
	20,270	10,960
Deferred credits	301	288
Long-term debt (Note 7)	11,494	3,336
Future income taxes	4,984	4,396
	37,049	18,980
Commitments and contingencies (Note 9)		
Shareholders' equity		
Share capital (Note 8)	38,207	38,036
Retained earnings	17,518	11,720
Cumulative translation adjustment	4,317	1,439
	60,042	51,195
	$ 97,091	$ 70,175

Approved by the Board

Director

Director

Consolidated Statements of Earnings and Retained Earnings

(stated in thousands of Canadian dollars, except earnings per share)	Year ended December 31,		
	2001	2000	1999
Revenue	**$ 95,715**	$ 62,866	$ 27,340
Direct costs	**65,497**	42,830	21,489
Gross profit	**30,218**	20,036	5,851
General, administrative and marketing expenses	**9,514**	7,085	4,921
Bad debt expense	**1,158**	732	549
Research and development expenses (Note 5)	**571**	631	399
Amortization	**7,715**	5,644	4,245
Interest expense:			
Short-term	**57**	171	27
Long-term	**1,200**	274	262
Earnings (loss) from continuing operations before income taxes and goodwill amortization	**10,003**	5,499	(4,552)
Income tax expense (recovery) from continuing operations (Note 11)			
Current	**3,210**	1,805	(2,599)
Future	**377**	470	1,070
	3,587	2,275	(1,529)
Net earnings (loss) from continuing operations before goodwill amortization	**6,416**	3,224	(3,023)
Goodwill amortization, net of income taxes	**618**	381	362
Net earnings (loss) from continuing operations	**5,798**	2,843	(3,385)
Loss from discontinued operations, net of income taxes (Note 10)	**–**	(594)	–
Net earnings (loss) for the year	**$ 5,798**	$ 2,249	$ (3,385)
Retained earnings, beginning of year	**$ 11,720**	$ 9,987	$ 13,372
Adjustment for change in accounting policy (Note 2)	**–**	(516)	–
Retained earnings, end of year	**$ 17,518**	$ 11,720	$ 9,987
Net earnings (loss) per common share from continuing operations (Note 12)			
Basic	**$ 0.26**	$ 0.13	$ (0.16)
Diluted	**$ 0.26**	$ 0.13	$ (0.16)
Net earnings (loss) per common share from discontinued operations (Note 12)			
Basic	**$ –**	$ (0.03)	$ –
Diluted	**$ –**	$ (0.03)	$ –
Net earnings (loss) per common share (Note 12)			
Basic	**$ 0.26**	$ 0.10	$ (0.16)
Diluted	**$ 0.26**	$ 0.10	$ (0.16)

Consolidated Statements of Cash Flows

(stated in thousands of Canadian dollars)	Year ended December 31,		
	2001	2000	1999
Cash provided by (used in) operating activities			
Net earnings (loss) from continuing operations	**$ 5,798**	$ 2,843	$ (3,385)
Add (deduct) items not affecting cash			
Amortization	**8,575**	6,118	4,683
Gain on sale of property, plant and equipment	**(1,230)**	(1,015)	(398)
Future income taxes	**450**	494	1,112
Cash flow from continuing operations	**13,593**	8,440	2,012
Net change in non-cash working capital balances (Note 14)	**1,357**	(1,250)	(4,583)
Cash used in discontinued operations	**–**	(566)	–
	14,950	6,624	(2,571)
Cash provided by (used in) investing activities			
Proceeds on sale of property, plant and equipment	**2,487**	1,986	846
Acquisition of property, plant and equipment	**(11,667)**	(9,625)	(5,569)
Acquisition of intangible assets	**(764)**	(1,810)	(1,047)
Business acquisitions (Note 13)	**(15,631)**	–	(572)
	(25,575)	(9,449)	(6,342)
Cash provided by (used in) financing activities			
Share capital, net of issue costs (Note 8)	**171**	157	7,232
Increase in deferred credits	**13**	288	–
Repayment of long-term debt	**(5,888)**	(1,350)	(1,279)
Increase in long-term debt	**17,767**	2,160	3,000
	12,063	1,255	8,953
Increase (decrease) in cash and cash equivalents during the year	**1,438**	(1,570)	40
Cash and cash equivalents, beginning of year	**56**	1,626	1,586
Cash and cash equivalents, end of year	**$ 1,494**	$ 56	$ 1,626
Cash and cash equivalents is defined as:			
Cash	**$ 3,294**	$ 56	$ 1,626
Bank operating loan	**(1,800)**	–	–
	$ 1,494	$ 56	$ 1,626

December 31, 2001
(tabular amounts in thousands of Canadian dollars)

1 Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

a) *Principles of consolidation*

These consolidated financial statements include the accounts of Ryan Energy Technologies Inc. ("the Company") and its partnerships and subsidiaries, all of which are wholly owned.

b) *Revenue recognition*

The Company recognizes revenue for its services at the time they are provided, except for longer-term services for which the Company recognizes revenue on the percentage of completion basis taking into consideration the contractual relationship and effort completed on the specific contract.

c) *Inventory*

Inventories are carried at the lower of cost, applied on a weighted average basis, and net realizable value.

d) *Amortization of property, plant and equipment*

Property, plant and equipment are recorded at cost and amortized as follows:

Office and computer equipment	2 to 5 years straight-line
Directional drilling equipment	5 to 8 years straight-line, 0 to 20% residual value
Well site data management equipment	5 years straight-line, 0 to 20% residual value
Directional drilling assets under capital lease	8 years straight-line, 20% residual value
Buildings	40 years straight-line
Leasehold improvements	5 years straight-line

The carrying value of property, plant and equipment is periodically assessed by management for impairment. If it is determined that a permanent impairment exists, the assets will be written down to their net realizable value.

e) *Amortization of intangible assets*

Intangible assets are recorded at cost and amortized as follows:

Software	3 years straight-line
Development and patent costs	straight-line over the economic life of the product or process
Deferred expenditures	5 years straight-line

The carrying value of intangible assets is periodically assessed by management for impairment. If it is determined that a permanent impairment exists, the assets will be written down to their net realizable value.

f) *Goodwill*

Goodwill represents the excess of cost over the fair market value of the net assets of companies acquired in purchase transactions. Goodwill is amortized on a straight-line basis over 20 years. Cash flows of related business activities and economic opportunities are reviewed periodically to determine whether any permanent impairment of the unamortized goodwill has occurred. The net book value of goodwill would be written down if permanently impaired.

g) *Research and development*

Research costs are expensed in the year in which they are incurred. Development costs related to a specific product or process that is proven to be technically and economically feasible are capitalized and amortized over the economic life of the product or process.

h) *Deferred expenditures*
Deferred expenditures represent expenses incurred in Venezuela prior to commencing commercial operations. At the commencement of commercial activities, these expenditures are amortized on a straight-line basis over five years.

i) *Deferred credits*
The Company has received certain lease inducements related to the lease of its head office and Technology Center facilities. These inducements are being amortized into income on a straight-line basis over the term of the lease that the inducement relates to.

j) *Future income taxes*
The Company follows the liability method in accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs.

k) *Foreign currency translation*
The Company's United States subsidiary is self-sustaining and is translated using the current rate method. All assets and liabilities of this company are translated at the rates prevailing at the balance sheet date. Revenue and expenses are translated at weighted average rates throughout the year. Gains and losses on translation of this company are deferred in a separate component of shareholders' equity entitled "cumulative translation adjustment".

The Company's Venezuela subsidiary is also self-sustaining, however, due to the high inflationary environment present in Venezuela, the temporal method is used to translate the financial statements from Venezuelan bolivars to United States dollars. The current rate method is used to translate the financial statements from United States dollars to Canadian dollars.

Under the temporal method, financial statements are translated as follows:

i) monetary assets and liabilities at year end rates;
ii) all other assets and liabilities at historical rates; and
iii) revenue and expense transactions at the average monthly rates of exchange prevailing during the year. Exchange gains or losses arising on these transactions are reflected in income during the period incurred.

l) *Stock-based compensation plans*
The Company has one stock-based compensation plan, which is detailed in Note 8. No compensation expense is recognized for this plan when stock options are issued to directors, officers and employees. Any consideration paid on exercise of stock options is credited to share capital.

m) *Reclassifications*
Certain information provided in prior years has been reclassified to conform with the current year presentation.

2 Changes in accounting policies

On January 1, 2001, the Company retroactively adopted the Canadian Institute of Chartered Accountants (CICA) new standard for the computation and disclosure of earnings per share with all prior periods being restated. Under the new standard, the treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. There would be no material differences had the previous standard been used to calculate fully diluted earnings per share.

On January 1, 2000, the Company retroactively adopted the CICA new recommendations for the accounting for income taxes, which requires the use of the liability method, as described in Note 1. Prior years have not been restated to reflect the effect of this change in policy.

Previously, the Company followed the deferral method of accounting for income taxes, which related the provision for income taxes to the accounting income for the period. Under the deferral method, the amount by which the income tax provision differed from the amount of income taxes currently payable was considered to represent deferral to future periods of the benefits obtained or expenditures incurred in the current period and accordingly was computed at current income tax rates. The accumulated deferred income tax balance was not adjusted to reflect subsequent changes in income tax rates. Also, under the deferral method, tax benefits related to accounting losses could only be recognized in the period the loss was incurred if there was virtual certainty of realizing these benefits.

As a result of the change in accounting policy, opening retained earnings for 2000 was decreased by $515,524 due to the effect of the change in policy on the prior years.

3 Inventory

	December 31, 2001	2000
Raw materials, completed parts and components	$ 3,955	$ 1,419
Work in progress	1,228	117
	$ 5,183	$ 1,536

4 Property, plant and equipment

	December 31, 2001		
	Cost	Accumulated amortization	Net book value
Land, building and leasehold improvements	$ 2,760	$ 703	$ 2,057
Office and computer equipment	3,353	2,043	1,310
Directional drilling equipment	45,273	13,214	32,059
Well site data management equipment	7,572	1,404	6,168
Directional drilling assets under capital lease	3,325	1,453	1,872
Assets under construction	1,606	–	1,606
	$ 63,889	$ 18,817	$ 45,072

	December 31, 2000		
	Cost	Accumulated amortization	Net book value
Land, building and leasehold improvements	$ 2,434	$ 454	$ 1,980
Office and computer equipment	2,498	1,658	840
Directional drilling equipment	31,220	9,006	22,214
Well site data management equipment	3,810	579	3,231
Directional drilling assets under capital lease	3,317	1,121	2,196
Assets under construction	2,071	–	2,071
	$ 45,350	$ 12,818	$ 32,532

5 Intangible assets

	December 31, 2001		
	Cost	Accumulated amortization	Net book value
Software	$ 1,445	$ 1,106	$ 339
Development and patent costs	5,628	1,681	3,947
Deferred expenditures	553	366	187
	$ 7,626	$ 3,153	$ 4,473

	December 31, 2000		
	Cost	Accumulated amortization	Net book value
Software	$ 1,261	$ 787	$ 474
Development and patent costs	4,969	1,098	3,871
Deferred expenditures	539	202	337
	$ 6,769	$ 2,087	$ 4,682

The Company incurred research and development costs of $1,135,824 for the year ended December 31, 2001 (2000 - $1,782,675; 1999 - $941,603) of which $570,523 (2000 - $630,615; 1999 - $398,815) was expensed during the year.

6 Bank credit facilities

The Company's bank credit facilities are as follows:

a) A $5,000,000 demand revolving facility. Amounts drawn on this facility bear interest at prime plus 0.25%. The maximum amount available under this facility is subject to a borrowing base formula applied to accounts receivable and inventories. As at December 31, 2001, the maximum available under this facility was not limited by the borrowing base formula, and $1,800,000 was owing on this facility.

b) A $20,000,000 demand term facility. Amounts drawn on this facility bear interest at prime plus 0.75%, and are repayable over 42 months commencing January 26, 2001. As at December 31, 2001, the Company had borrowed $13,996,674 under this facility (Note 7).

The above bank credit facilities contain restrictive covenants requiring the maintenance of certain financial ratios, a limitation on the distribution of capital, payment of dividends, and incurrence of additional debt. At December 31, 2001, the Company was in compliance with all required covenants. The above facilities are collateralized through a general assignment of receivables and inventory, a fixed and floating charge on all assets, and guarantees from the Company's subsidiaries.

7 Long-term debt

Long-term debt is comprised of the following:

	December 31,	
	2001	2000
Term loan (Note 6)	$ 13,997	$ 1,567
Mortgage	523	550
Capital lease	1,685	2,209
	16,205	4,326
Less: current portion	4,711	990
	$ 11,494	$ 3,336

Mortgage:
This debt is repayable over a 15-year term in blended monthly payments of $5,599, bearing interest at prime plus 1.25%. The mortgage is collateralized by the Company's Canadian technical facility.

Capital lease:
Sale and leaseback transaction with a Canadian Chartered bank due October 30, 2004 (at which time the Company can reacquire the equipment for nominal consideration) repayable in monthly lease payments of $56,593 at 8.15% per annum and collateralized by the assets under lease.

Estimated future minimum lease payments under the capital lease, at December 31, 2001 required in each of the next five years are as follows:

2002	$ 679
2003	679
2004	526
2005	–
2006	–
Total future minimum lease payments	1,884
Less imputed interest	(199)
	$ 1,685

The minimum annual principal instalments on the term loan and mortgage for the next five years are as follows:

2002	$ 4,149
2003	4,023
2004	4,025
2005	1,981
2006	51
Thereafter	291
	$ 14,520

8 Share capital

a) *Authorized*
The authorized share capital consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares issuable in series which are entitled to preference over the common shares as to the payment of dividends and distribution of assets.

b) *Issued and outstanding common shares*

	Common Shares	
	Number (000s)	Amount
Balance, December 31, 1999	22,508	$ 37,879
Issued for cash	87	157
Balance, December 31, 2000	22,595	38,036
Issued for cash	83	171
Balance, December 31, 2001	22,678	$ 38,207

c) *Stock-based compensation plan*
At December 31, 2001, the Company had one stock-based compensation plan which is described below.

Under the 1996 Employee Stock Plan, the Company has reserved 2,745,982 common shares which may be used to grant options to its directors, officers, and employees. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of grant. All options granted prior to August 20, 1998 vest over 3 years with a maximum term of 5 years. For options granted between

August 20, 1998 and June 26, 2000, the maximum term was reduced to 3 1/2 years. Subsequent to June 26, 2000, the maximum term was further reduced to 3 years. A summary of the status of the Company's plan at December 31, 2001 and 2000, and charges during the years then ended is presented below.

Continuity of stock options	2001		2000	
	Shares (000s)	Weighted average exercise price ($/share)	Shares (000s)	Weighted average exercise price ($/share)
Outstanding at beginning of year	1,684	$ 4.83	1,769	$ 5.66
Granted	1,219	2.09	592	2.82
Exercised	(83)	2.07	(87)	1.84
Forfeited	(516)	4.55	(590)	5.75
Outstanding at end of year	2,304	$ 3.54	1,684	$ 4.83
Options exerciseable at year-end	1,105	$ 4.68	880	$ 6.13

The following table summarizes information about the stock options outstanding at December 31, 2001.

	Options outstanding			Options exerciseable	
Range of exercise price	Number outstanding (000s)	Weighted average remaining contractual life (years)	Weighted average exercise price ($/share)	Number exerciseable (000s)	Weighted average exercise price ($/share)
$1.61 to $1.85	623	2.79	$ 1.61	208	$ 1.61
$1.86 to $2.60	401	1.60	2.26	245	2.31
$2.85 to $3.20	565	1.73	3.01	142	3.13
$3.30 to $5.60	472	0.99	3.82	267	4.06
$6.30 to $9.50	83	0.64	8.23	83	8.23
$10.00 to $13.25	160	0.80	12.88	160	12.88
$1.61 to $13.25	2,304	1.74	$ 3.54	1,105	$ 4.68

9 Commitments and contingencies

The Company has future operating lease obligations for office and shop premises, office equipment and automotive equipment for various periods up to February 28, 2007. Minimum lease payments over the next five years are as follows:

	Equipment	Premises	Total
2002	$ 733	$ 1,120	$ 1,853
2003	604	1,003	1,607
2004	534	934	1,468
2005	393	787	1,180
2006	71	631	702

The Company through the performance of its services and product sales obligations, is sometimes named as a defendant in litigation. The nature of these claims usually relate to personal injury, completed operations or product liability. The Company maintains a level of insurance coverage as deemed appropriate by management and for matters for which insurance coverage can be maintained. At December 31, 2001, the Company has no outstanding claims having a potentially material adverse effect on the Company taken individually or as a whole.

10 Discontinued operations

In April 2000, the Company decided to discontinue its directional drilling operation in Abu Dhabi of the United Arab Emirates. The operational assets previously transferred to Abu Dhabi were returned to North America during the second quarter of 2000 and integrated into the Company's North American operation.

The results of discontinued operations for the year ended December 31, 2000, were as follows:

Sales revenue	$ 491
Loss before income taxes	(804)
Income tax recovery	210
Net loss	$ (594)

11 Income taxes

The Company's effective tax rate resulting from the determination of the consolidated income tax expense differs from the combined federal and provincial statutory income tax rates. The principal factors attributed to the difference are as follows:

	December 31,		
	2001	2000	1999
Earnings (loss) from continuing operations before income tax	$ 10,003	$ 5,499	$ (4,552)
Combined federal and provincial tax rate	43.6%	44.6%	44.6%
Income taxes based on a combined federal and provincial tax rate	$ 4,361	$ 2,453	$ (2,030)
Non-deductible expenses	196	177	132
Non-deductible amortization	62	59	219
Non-taxable portion of capital gains	(23)	(105)	(44)
Differences in foreign statutory rates	(372)	(170)	152
Differences due to change in effective tax rates	(350)	(78)	–
Adjustments related to tax assessments	43	(63)	–
Tax credits received	(89)	–	–
Other	(241)	2	42
	$ 3,587	$ 2,275	$ (1,529)

As at December 31, 2001, the only significant differences between the tax bases of assets and liabilities and their book value related to property, plant and equipment and intangible assets.

12 Earnings per share

As outlined in Note 2, earnings per share amounts have been calculated using the treasury stock method. A reconciliation of the number of shares used for the basic and diluted earnings per share ("EPS") computation is as follows:

	December 31,		
	2001	2000	1999
Denominator:			
Weighted average common shares outstanding for basic EPS	22,647	22,536	20,796
Effect of dilutive shares - stock plans	30	40	156
Adjusted weighted average common shares outstanding for diluted EPS	22,677	22,576	20,952
Anti-dilutive shares excluded from diluted EPS:			
Options with exercise price greater than market price	1,478	1,308	774

13 Business acquisitions

Effective January 1, 2001, the Company acquired the business and operating assets, excluding working capital, of Smith Services, Directional Group, a business unit of Smith International, Inc. The principle operations acquired are located in Texas, Louisiana, the Gulf of Mexico and Michigan.

The purchase price of $15.6 million was financed with drawings from the Company's credit facilities.

The assets acquired and the consideration paid was as follows:

Assets acquired	
Inventory	$ 1,149
Property, plant and equipment	7,335
Goodwill	7,147
	$ 15,631
Consideration	
Cash	$ 15,147
Acquisition costs	484
	$ 15,631

On November 18, 1999, the Company purchased the horizontal and directional drilling business and certain related fixed assets of Whipstock Systems Inc. ("Whipstock"). Whipstock is based in Calgary, Canada and offers services in western Canada.

The acquisition was recorded using the purchase method with the results from operations included in the financial statements from the date of acquisition.

The assets acquired and the consideration paid was as follows:

Assets acquired	
Property, plant and equipment	$ 850
Goodwill	822
	$ 1,672
Consideration	
Cash	$ 572
Common shares	1,100
	$ 1,672

14 Statements of cash flows

a) *Change in non-cash working capital balances*

	December 31,		
	2001	2000	1999
Accounts receivable	$ (3,864)	$ (7,110)	$ (4,912)
Inventory	(2,079)	647	131
Prepaid expenses	(126)	153	(338)
Accounts payable	4,635	4,433	2,172
Corporate income tax	2,791	627	(1,636)
	$ 1,357	$ (1,250)	$ (4,583)

b) *Supplemental information*

	December 31,		
	2001	2000	1999
Interest paid	$ 1,245	$ 427	$ 265
Net income taxes paid (recovered)	$ 684	$ 922	$ (1,300)

15 Segmented information

The Company's operations are carried on in the following geographic locations:

Year ended December 31,	Canada	United States	Venezuela	Total
2001				
Revenue	$ 36,330	$ 52,777	$ 6,608	$ 95,715
Property, plant and equipment, intangible assets, and goodwill	23,338	36,391	5,119	64,848
2000				
Revenue	$ 41,058	$ 19,393	$ 2,415	$ 62,866
Property, plant and equipment, intangible assets, and goodwill	24,908	17,786	2,726	45,420
1999				
Revenue	$ 12,773	$ 14,040	$ 527	$ 27,340
Property, plant and equipment, intangible assets, and goodwill	23,262	15,069	2,400	40,731

The Company operates in two industry segments, horizontal and directional drilling services and well site data management services.

Year ended December 31,	Horizontal and directional drilling	Well site data management	Corporate and other	Total
2001				
Revenue	$ 87,449	$ 8,266	$ –	$ 95,715
Operating earnings	12,917	431	(3,345)	10,003
Research and engineering	–	–	571	571
Amortization	5,855	1,216	644	7,715
Assets	80,095	12,524	4,472	97,091
Capital expenditures*	6,981	4,639	811	12,431
2000				
Revenue	$ 60,279	$ 2,587	$ –	$ 62,866
Operating earnings	9,975	(1,140)	(3,336)	5,499
Research and engineering	–	–	631	631
Amortization	4,308	576	760	5,644
Assets	57,105	8,727	4,343	70,175
Capital expenditures*	8,570	1,644	1,221	11,435
1999				
Revenue	$ 25,547	$ 1,793	$ –	$ 27,340
Operating earnings	(577)	(1,736)	(2,239)	(4,552)
Research and engineering	–	–	399	399
Amortization	2,796	978	471	4,245
Assets	50,781	6,459	3,722	60,962
Capital expenditures*	4,247	1,727	642	6,616

*excludes acquisitions

16 Financial instruments

The Company's financial instruments that are included in the consolidated balance sheet are comprised of cash, accounts receivable, and all current liabilities and long-term borrowings.

a) *Fair values of financial assets and liabilities*
The fair values of financial instruments that are included in the consolidated balance sheet, including long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments and the interest rate applied to long-term borrowings which approximate market interest rates.

b) *Credit risk*
Virtually all of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risks.

c) *Interest rate risk*
At December 31, 2001, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt would not have a significant effect on net earnings.

d) *Foreign exchange risk*
Foreign exchange risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company has operations outside of Canada which are subject to these foreign exchange risks.

17 Subsequent event

On February 12, 2002, the Company and its subsidiaries entered into a new financing arrangement with a Canadian Chartered Bank and its United States affiliate which will replace the Company's existing facilities. The new credit facilities are as follows:

a) A $5,000,000 demand revolving line of credit. This facility is available to the Company through direct advances, Bankers' Acceptances, and commercial letters of credit. The direct advances bear interest at prime plus 0.25% and the Bankers' Acceptances bear interest at the Bankers' Acceptance rate plus 0.65%. The maximum amount available under this facility is subject to a margin formula applied to accounts receivable of the Canadian operations.

b) A $US 5,000,000 demand revolving line of credit. This facility is available to the Company through direct advances and commercial letters of credit. The direct advances bear interest at the United States prime rate plus 0.25%. The maximum amount available under this facility is subject to a margin formula applied to accounts receivable of the United States operations.

c) A $US 10,000,000 twenty-four month committed term loan facility, amortized over forty-eight months. This facility is available to the Company through match funded term loans or LIBOR loans. The term loans bear interest at the United States prime rate plus 1.0% and the LIBOR loans bear interest at the LIBOR loan rate plus 4.0%.

The above facilities contain restrictive covenants on the Company requiring the maintenance of certain financial ratios, the limitation on the incurrence of additional debt and a limitation on the Company's ability to pay dividends and make capital distributions. The facilities are collaterized through a general security agreement, a floating charge on all real property and land, guarantees from the Company's subsidiaries and an assignment of receivables and insurance policies of the Company.

Quarterly Results

(stated in thousands of Canadian dollars, except for per share amounts, unaudited)

	2001				2000				1999			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	20,069	26,093	22,510	27,043	20,534	16,451	10,655	15,226	11,562	5,945	3,474	6,359
Direct costs	14,815	17,585	15,697	17,400	13,023	10,989	8,331	10,487	7,730	4,933	3,436	5,390
Gross profit	5,254	8,508	6,813	9,643	7,511	5,462	2,324	4,739	3,832	1,012	38	969
General, administrative, and marketing expenses	1,611	2,738	2,645	2,520	1,922	1,808	1,802	1,553	1,497	1,286	1,156	982
Bad debt expense	1,085	43	30	–	78	–	–	654	145	107	238	59
Research and development expenses	(67)	65	395	178	117	191	195	128	129	85	97	88
Amortization	2,095	1,885	1,941	1,794	1,544	1,473	1,358	1,269	1,422	995	909	919
Interest expense:												
Short-term	13	26	7	11	50	63	43	15	(5)	5	7	20
Long-term	223	302	373	302	42	105	60	67	74	80	75	33
Earnings (loss) from continuing operations before income taxes and goodwill amortization	294	3,449	1,422	4,838	3,758	1,822	(1,134)	1,053	570	(1,546)	(2,444)	(1,132)
Income tax expense (recovery) from continuing operations												
Current	(262)	931	691	1,850	1,287	561	(406)	363	236	(1,082)	(1,035)	(718)
Future	248	146	(112)	95	310	129	7	24	84	523	187	276
	(14)	1,077	579	1,945	1,597	690	(399)	387	320	(559)	(848)	(442)
Net earnings (loss) from continuing operations before goodwill amortization	308	2,372	843	2,893	2,161	1,132	(735)	666	250	(987)	(1,596)	(690)
Goodwill amortization, net of income tax	159	154	153	152	98	95	95	93	91	89	90	92
Net earnings (loss) from continuing operations	149	2,218	690	2,741	2,063	1,037	(830)	573	159	(1,076)	(1,686)	(782)
Loss from discontinued operations	–	–	–	–	–	–	(88)	(506)	–	–	–	–
Net earnings (loss) for the year	149	2,218	690	2,741	2,063	1,037	(918)	67	159	(1,076)	(1,686)	(782)
Net earnings (loss) per share from continuing operations	0.01	0.10	0.03	0.12	0.09	0.05	(0.04)	0.03	0.01	(0.05)	(0.08)	(0.04)
Net loss per share from discontinued operations	–	–	–	–	–	–	–	(0.03)	–	–	–	–
Net earnings (loss) per share	0.01	0.10	0.03	0.12	0.09	0.05	(0.04)	–	0.01	(0.05)	(0.08)	(0.04)
EBITDA from continuing operations	2,625	5,662	3,743	6,945	5,394	3,463	327	2,404	2,061	(466)	(1,453)	(160)
Cash flow from continuing operations	2,540	3,798	2,607	4,648	3,469	2,418	660	1,893	1,577	460	(480)	455
Cash flow from continuing operations per share	0.11	0.17	0.12	0.20	0.15	0.11	0.03	0.08	0.08	0.02	(0.02)	0.02
Capital expenditures, excluding acquisitions	5,312	2,115	1,857	3,147	2,757	3,169	1,862	3,647	2,984	1,254	1,237	1,141

For the years ended December 31,
(stated in thousands of Canadian dollars, except for per share amounts and percentages)

	2001	2000	1999	1998	1997	1996	1995
Revenue	**95,715**	62,866	27,340	43,888	43,290	19,235	9,413
Direct costs	**65,497**	42,830	21,489	29,821	25,528	11,089	5,875
Gross profit	**30,218**	20,036	5,851	14,067	17,762	8,146	3,538
General, administrative, and marketing expenses	**9,514**	7,085	4,921	4,746	2,901	1,451	683
Bad debt expense	**1,158**	732	549	551	–	–	–
Research and development expenses	**571**	631	399	467	337	173	–
Amortization	**7,715**	5,644	4,245	3,802	2,940	1,281	624
Interest expense	**1,257**	445	289	186	205	179	93
Earnings (loss) from continuing operations before income taxes and goodwill amortization	**10,003**	5,499	(4,552)	4,315	11,379	5,062	2,138
Income tax expense (recovery) from continuing operations	**3,587**	2,275	(1,529)	2,001	4,795	2,259	878
Earnings (loss) from continuing operations before goodwill amortization	**6,416**	3,224	(3,023)	2,314	6,584	2,803	1,260
Goodwill amortization, net of income tax	**618**	381	362	359	157	–	–
Earnings (loss) from continuing operations	**5,798**	2,843	(3,385)	1,955	6,427	2,803	1,260
Loss from discontinued operations	**–**	(594)	–	–	–	–	–
Net earnings (loss) for the year	**5,798**	2,249	(3,385)	1,955	6,427	2,803	1,260
Earnings before interest, income taxes, depreciation, and amortization	**18,975**	11,588	(18)	8,303	14,524	6,522	2,855
Earnings (loss) per common share	**0.26**	0.10	(0.16)	0.10	0.35	0.20	0.10
Gross profit ratio	**32%**	32%	21%	32%	41%	42%	38%
Working capital	**11,973**	13,795	13,302	9,346	8,849	6,020	549
Working capital ratio	**1.59**	2.26	2.92	2.89	1.75	1.88	1.23
Cash and cash equivalents	**1,494**	56	1,626	1,986	8,379	7,288	(219)
Capital expenditures, excluding acquisitions	**12,431**	11,435	6,616	7,935	15,470	8,991	2,733
Long-term debt	**11,494**	3,336	2,219	816	1,795	2,524	2,000
Shareholders' equity	**60,042**	51,195	48,426	44,783	40,824	14,456	3,083
Number of shares outstanding at year end (000s)	**22,678**	22,595	22,508	20,372	20,143	17,102	12,362

DIRECTORS

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(2) Compensation Committee

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Vice President, Finance
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Partner, Macleod Dixon L.L.P.

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TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

BANKERS

Royal Bank of Canada
RBC Centura

STOCK LISTING

The Toronto Stock Exchange
Symbol: RYN

Downhole Motor – Mechanical equipment behind the drill bit that rotates the drill bit by converting the pressure of drilling fluids to rotational torque, as opposed to a conventional drilling rig that rotates the drill bit by rotating the entire drill string from surface.

Dynamic Pressure Device (DPD) – Ryan's pressure sensing and recording technology that measures up to three pressure characteristics of downhole drilling conditions.

Electromagnetic (EM) Communication Technology – EM communication technology utilizes low-frequency radio waves to transmit downhole data to the surface. It has specific benefits in under-balanced drilling environments where mud pulse telemetry systems are ineffective. Ryan's EM communication equipment is fully retrievable in the event of downhole drilling problems.

Tru Vu® – A proprietary well site data management (WDM) system developed by Ryan to integrate data derived from all facets of oil and natural gas drilling.

Geological Steering Instrumentation (GSI) – Ryan's proprietary LWD technology that enables the oil and natural gas client to not only determine the geology the wellbore is intersecting but its relative three dimensional slope. This is critical in determining the location of the wellbore relative to the boundaries of the producing reservoir.

Horizontal and Directional Drilling – Refers to intentionally drilling a non-vertical wellbore. Such wellbores may initially be vertical but are deviated to reach a specific target or to expose the wellbore to a larger portion of the reservoir.

Hydrostatic Pressure – The pressure exerted by the weight of drilling fluids in the drill stem.

Logging While Drilling (LWD) – Refers to technology that records (logs) various geological zones through which the wellbore is intersecting while drilling. This allows the oil and natural gas client to make decisions on a real-time basis concerning the trajectory of the wellbore relative to the geology being encountered.

Measurement While Drilling (MWD) – Refers to technology that determines and transmits the position of the wellbore relative to a surface location while drilling. This allows the directional driller to steer a wellbore to the intended oil and natural gas reservoir.

Mud Pulse Telemetry Systems – A method by which information is communicated from the wellbore to the surface by encoding pulses into the drilling fluids which are then decoded on surface.

Underbalanced Drilling – Usually involves the use of gases (e.g. nitrogen) or foams to reduce the pressure exerted on the reservoir by the weight of drilling fluids, typically resulting in less damage to the producing formation.

Well Site Data Management (WDM) System – Electronically recording, processing and presenting surface and downhole information produced while drilling oil and natural gas wells. This information may be used on a real-time basis during drilling or later for analysis by the oil and natural gas client.



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